S & L Vitamins, Inc. v. Australian Gold, Inc. Doc. 106

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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

S & L VITAMINS, INC., Plaintiff/Counterclaim Defendant, v. AUSTRALIAN GOLD, INC., Defendant/Counterclaim Plaintiff.	05 CV 1217 (JS)(MLO)
AUSTRALIAN GOLD, INC., Third Party Plaintiff, v. LARRY SAGARIN AND JOHN DOES, 1-10, Third Party Defendants,	

AUSTRALIAN GOLD'S MEMORANDUM OF LAW IN OPPOSITION TO S&L VITAMINS' MOTION FOR SUMMARY JUDGMENT

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I. INTRODUCTION AND BACKGROUND

As a leading internet retailer which has sold hundreds of thousands of dollars of Australian Gold, Inc.'s ("Australian Gold") tanning lotions and products ("Products"), S&L Vitamins, Inc. ("S&L Vitamins") attempts to portrays itself as a small, family owned business which is being unfairly targeted by Australian Gold. Nothing is further from the truth. Let's set the record straight: (1) S&L Vitamins sued Australian Gold seeking declaratory judgment that its sales of Products on the internet is permissible and (2) S&L Vitamins, with full knowledge that Australian Gold objects to the sale of its Products on the internet, concocted a scheme to surreptitiously circumvent Australian Gold's distribution system by using a straw man to purchase the Products directly from an authorized Australian Gold distributor.

The legal issues in this case are fraught with factual questions – questions which directly bear on the credibility of S&L Vitamins' version of facts. For example, Larry Sagarain, who in his deposition claimed to be an employee of S&L Vitamins who curiously draws no salary, now professes to be one of S&L Vitamins' principals in a tardy affidavit filed in a supplemental Rule 56.1 Statement,[1] claims that he did not know the identity of any of Australian Gold's distributors. Yet, Sagarin acknowledged that he received invoices directly from Australian Gold's distributors through the straw man, invoices which certainly identify the source of the Products. It is a good bet that Sagarin indeed knows the names of Australian Gold's distributors. In fact, his partner, Steve Mercadante, testified that they intentionally had no direct contact with the distributors, because he knew he could not obtain Products from a distributor. Apart from the fact that this contradictory testimony calls the credibility of their entire testimony in question, it illustrates that

[1] Australian Gold objects to S&L Vitamins' Supplemental Rule 56.1 Statement. The Court set a schedule for the parties to file Rule 56.1 Statements, which did not include the right to file supplemental statements. Nor did S&L Vitamins seek leave of court to do so.

this case can only be decided by a jury. For the reasons set forth below, S&L Vitamins' motion for summary judgment must be denied.

II. STATEMENT OF FACTS

Australian Gold sets forth the disputed facts which preclude summary judgment in its Response to S&L Vitamins' Statement of Material Facts Pursuant to Local Rule 56.1 filed on October 12, 2006 ("AG's Response"). Australian Gold will not restate those facts in this brief but will only summarize the background of this case for the Court's convenience. Disputed facts precluding summary judgment will be referenced throughout this brief.

III. ARGUMENT

A. Summary Judgment is Proper Only where there are no Disputed Material Facts

Summary judgment is proper only where there are no genuine issues of material fact and the moving party is entitled to judgment as a matter of law. Fed. R. Civ. Pro. 56(c). Accordingly, a fact is "material" if it "might affect the outcome of the suit under the governing law." *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). A fact issue is "genuine" if "the evidence is such that a reasonable jury could return a verdict for the nonmoving party." *Id.; Mitchell v. Shane*, 350 F.3d 39, 47 (2d Cir. 2003).

B. S&L Vitamins is not Entitled to Summary Judgment on Australian Gold's Claims for Trademark Infringement and Unfair Competition.[2]

S&L Vitamins contends that it is entitled to summary judgment on the trademark infringement and unfair competition claims because (1) its activities are protected by the first sale doctrine; and (2) none of its activities suggest sponsorship or endorsement by Australian

[2] Australian Gold moved for summary judgment on its claim for unfair competition under Section 43(a) of the Lanham Act arising from S&L Vitamins' display of its logo and tradename over photographs of Australian Gold's products. For the reasons set forth in Australian Gold's motion, S&L Vitamins is not entitled to summary judgment on this count. For the sake of brevity, in this brief, Australian Gold will only address the additional reasons why S&L Vitamins is not entitled to summary judgment on its motion.

Gold, arguing that its use of the trademarks does not constitute "use in commerce" under the Lanham Act and there is no likelihood of confusion. (*See* S&L Vitamin's Brief, pp. 4-10)

S&L Vitamins is incorrect. First, its use and display of the Australian Gold Products go beyond the mere stocking and displaying of products and suggests that S&L Vitamins is either an authorized distributor or that Australian Gold endorses its sale of Products on the internet. Second, S&L Vitamins has used the Australian Gold and Swedish Beauty trademarks in its metatags and internet keyword advertising, which does give rise to the "use in commerce" requirement. Finally, the likelihood of confusion is a fact-sensitive inquiry that cannot be decided on summary judgment.

1. S&L Vitamins' Summary Judgment Motion on the Trademark and Unfair Competition Claims Fail for the Reasons Set forth in Australian Gold's Motion for Partial Summary Judgment

S&L Vitamins is using photographs of the Products with one of S & L Vitamins' assumed business names and logo superimposed over Australian Gold's Products, falsely drawing an affiliation, sponsorship or endorsement between Australian Gold and S & L Vitamins. This conduct, as explained in Australian Gold's Memorandum of Law in support of its motion for partial summary judgment, violates the Lanham Act as a matter of law. At a minimum, it raises a factual question which cannot be decided on summary judgment.

2. The Purchase Of Australian Gold's Trademarks In Keyword Advertising Is "Use In Commerce" Under The Lanham Act

Ignoring the fact that it has plastered its own name over the Australian Gold Products on its internet advertising, which is undeniably "use in commerce" under the Lanham Act, S&L Vitamins narrowly focuses on whether the use of the Australian Gold and Swedish Beauty trademarks in metatags and keyword advertising constitutes "use in commerce." It argues that such conduct does not constitute "use" and thus it is entitled to summary judgment.[3]

The issue before the Court is whether paying for another's trademarks in keyword advertising on the internet constitutes "use in commerce" under the Lanham Act. No circuit has directly decided this question and the district courts are split on this issue. While no court in the Eastern District of New York has addressed this issue, the better reasoning is that using another's trademark in connection with the keyword advertising to divert internet traffic to one's website should constitute "use in commerce" under the Lanham Act and be actionable.

Over time, internet search engines have become more sophisticated. Originally, keywords[4] were placed in metatags, which is the computer source code search engines used to rank websites in response to a search query. Metatags are not seen by the general public because, by definition, they are hidden computer source codes. Nonetheless, it is well established that the use of one's trademarks in metatags is actionable conduct under the Lanham Act. This theory is known as initial interest confusion and was first recognized by the Ninth Circuit. Tenth Circuit, earlier this year, in a substantially similar case where Australian Gold prevailed under this theory, also adopted the doctrine of initial interest confusion and upheld a jury verdict in excess of $5 million. *See Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228 (10th Cir. 2006). This doctrine has also been recognized by the Southern District of New York in *Bihari v. Gross*, No. 00 Civ. 1664 (SAS), 2000 WL 1409757 (S.D.N.Y. Sept. 25, 2000).

Initial interest confusion in the internet context derives from the unauthorized use of trademarks to divert internet traffic and capitalize on another's goodwill. *Australian Gold,* 436

[3] The "use in commerce" argument is not the "magic bullet" that S&L Vitamins portrays it to be. This issue pertains only to the use of trademarks in metatags and keyword advertising. It has no effect on Australian Gold's claim that the manipulation of the photographs of the Products is actionable under the Lanham Act.

[4] Keywords are search terms used by internet browsers searching the internet.

F.3d at 1239; *Nissan Motor Co. v. Nissan Computer Corp.*, 378 F.3d 1002, 1018-19 (9th Cir. 2004) (initial interest confusion established the likelihood of confusion); *Playboy Enters. v. Netscape Communications Corp.*, 354 F.3d 1020, 1025-26 (9th Cir. 2004) (initial interest confusion is a viable cause of action under the Lanham Act); *Horphag Research Ltd v. Pellegrini*, 337 F.3d 1036, 1040 (9th Cir. 2003), *Brookfield Communications, Inc. v. West Coast Entm't Corp.*, 174 F.3d 1036, 1064 (9th Cir. 1999). Initial interest confusion occurs where the defendant uses the plaintiff's trademark in a manner calculated to capture the initial consumer attention and divert the consumer to its own website. *Nissan,* 378 F.3d at 1018. Because initial interest confusion impermissibly capitalizes on the goodwill associated with the trademark, it is actionable under the Lanham Act. *Nissan,* 378 F.3d at 1018; *Playboy,* 354 F.3d at 1025.

In *Brookfield*, West Coast used the trademarked term "moviebuff.com" in its website's metatags to divert consumers who were looking for the Plaintiff's "movie buff" products. The court noted that although there was no confusion "in the sense that consumers know they [were] patronizing West Coast rather than Brookfield, there [was] nevertheless initial interest confusion in the sense that, by using 'moviebuff.com' or 'MovieBuff" to divert people looking for 'MovieBuff' to its website, West Coast improperly benefits from the goodwill that Brookfield developed in its mark." *Brookfield*, 174 F.3d at 1062. The court held that, as a matter of law, initial interest confusion was proof of likelihood of confusion and thus actionable. *Id.* at 1065.

Now, keyword advertising has largely replaced metatags as the preferred method for driving internet traffic to a website. Companies like Google and Yahoo! sell advertising links to specific search terms, including trademarks identifying goods and services. Google auctions specific search terms to the highest bidder. When a computer user searches for that term, the highest bidder's website will be shown as a sponsored link next to the natural search results that would have otherwise been returned using neutral criteria employed by the search engine. Not surprisingly, many high bidders for the trademarked keywords are not trademark owners themselves, but competitors and other unauthorized sellers of products. *See* Giannie P. Servodidio, *Keyword Advertising*, *NEW YORK L. J.* Vol. 236 (October 16, 2006). With the advent of keyword advertising by Google and Yahoo!, websites simply outbid the competition for a top ranking for search results, eliminating the need to stuff their metatags with keywords. *Id.*

Fundamentally, there is no meaningful difference between keyword advertising and the use of trademarks in metatags, which courts have found actionable under the initial interest confusion doctrine. Yet, the district courts are split as to whether this analogous conduct (i.e. using trademarks in keyword advertising instead of metatgs) is actionable under the Lanham Act, focusing on whether bidding on a trademark was "use in commerce."

Cases from across the country have held that the use of one's trademark in keyword advertising constituted "use in commerce" and thus actionable under the Lanham Act. *See e.g. Buying for the Home, LLC v. Humble Abode LLC*, No. 03-cv-2783 (JAP), 2006 WL 3000459, *8 (D. N.J. Oct, 2006) (In a thorough opinion discussing the split among district courts, the court held that the use of a trademark in keyword advertising "clearly satisfy the Lanham Act's 'use' requirement."); *Edina Realty, Inc. v. Themlsonline.com*, No. civ 04-4371 JRTFLN, 2006 WL 737064, * 3 (D. Minn. Mar. 20, 2006) (The court succinctly concluded that "[b]ased on the plain meaning of the Lanham Act, the purchase of search terms is a use in commerce."); *800-JR Cigar, Inc. v. Goto.com, Inc.*, 437 F.Supp.2d, 273 (D. N.J. 2006) (the court held that the defendant used the plaintiff's trademark in commerce through keyword advertising); *Geico v. Google, Inc.*, 330 F.Supp.2d 700 (E.D. Va. 2004).

Contrary to S&L Vitamin's assertion, there is no "emerging rule" in this circuit. Although a couple of district courts in New York outside the Eastern District have decided otherwise, the Second Circuit has not spoken on this issue. The *1-800 Contacts, Inc. v. WhenU.com* case relied upon by Plaintiff does not address keyword advertising and whether such conduct constitutes "use in commerce" under the Lanham Act. *1-800 Contacts, Inc. v. WhenU.com*, 414 F.3d 400 (2d Cir. 2005), *cert. denied*, 126 S.Ct 749 (2005). The Second Circuit was very careful not to express an opinion on whether the purchase of keywords constituted use under the Lanham Act. In fact, the Second Circuit distinguished the facts of its case with those where companies sold keyword trademarks.

In that case, 1-800 Contacts sued WhenU.com relating to WhenU's proprietary software called "Save Now," which was a bundle of software that responded to the computer user's activities by generating pop-up advertisement windows that were relevant to those specific activities. The program monitored the computer user's internet activity in order to provide relevant pop-up advertising. This was purely a mechanical program and did not offer keywords for sale to competitors. In finding that this mechanical, computer-generated application was not "use in commerce" under the Lanham Act, the Second Circuit carefully noted that WhenU did not sell keyword trademarks to its customers or otherwise manipulate which category-related advertisement would pop-up in response to any particular search terms. *1-800 Contacts*, 414 F.3d at 411. The court noted that a customer could not pay to have its pop-up ad appear on any specific website or in connection with any particular trademark. Instead, the software randomly selects one of the pop-up ads contained in a category to send to the desktop. *Id.*

This factual distinction is very important in this case because unlike the pop-up advertisements in *1-800 Contacts*, S&L Vitamins is intentionally biding on Australian Gold's trademarks so that its website will be displayed at the top of the list when those terms are searched.

S&L Vitamins' asks this court to blindly follow *RescueCom Corp. v. Google, Inc.*, No. 5:04-cv-1055 (NAM/GHL); 2006 WL 2811711 (N.D.N.Y. Sept. 28, 2006) and *Merck and Co. v. Mediplan Health Consulting, Inc.*, 431 F.Supp.2d 425 (S.D.N.Y. 2006) as the "emerging law" of this circuit. However, those cases are far from controlling. Aside from being district court cases not binding on this court, the Southern District of New York reached the opposite conclusion with respect to similar activities. In *Movado Group, Inc. v. Matagorda Ventures, Inc.*, No. 98 civ. 6223 LMM, 2000 WL 185512 (S.D.N.Y. Dec. 19, 2000), Movado filed suit against an internet website selling its products in violations of the Lanham Act and the Copyright Act. Much like Australian Gold, Movado only sells it watches through authorized independent retailers. Defendants obtained the products through unauthorized sources and offered them for sale on the internet. Defendants posted pictures of the Movado watches on the website and failed to offer the Movado factory warranty, instead offering their own version of some type of warranty. The defendants also used the trademark term "Concorde," which is a brand of watch made by Movado and listed it on the website and in the website's metatags in an attempt to lure customers to defendant's website.

Movado moved for summary judgment on the use of the Concorde trademark in the metatags and the court granted summary judgment in favor of Movado. Relying on another decision from the Southern District of New York, *Bihari*, 2000 WL 1409757, the court held that the placement of the Concorde trademark in the metatag constituted a violation of the Lanham Act. *Movado,* 2000 WL 1855120 at *4. In *Bihari*, the court adopted the initial interest confusion doctrine and ruled that in "the cyberspace context, the concern is that potential customers of one website will be diverted and distracted to a competing website. The harm is that the potential customer believes that the competing website is associated with the website the customer was originally searching for and will not resume searching for the original website." *Bihari*, 2000 WL 1409757 at *9.

There is no significant distinction between the use of a trademark in metatag and in keyword advertising – the intended result is the same. There is a plethora of precedent supporting violations of the Lanham Act under the doctrine of initial interest confusion and the fact that the method in which this is accomplished (i.e. metatag versus keyword advertising), should not matter. There is no dispute that S&L Vitamins is using Australian Gold's trademarks in keyword advertising and they are doing so because it is a benefit to the company and it helps direct internet traffic to their website. Sagarin Dep. 123:8-13; 126:14-19. This is clearly a commercial transaction and Australian Gold trademarks are being used in commerce.

Finally, under *Bihari*, S&L Vitamins has used Australian Gold's trademarks in its metatags. Such conduct gives rise to claims under the Lanham Act. Thus, even if the Court found a distinction between metatags and keyword advertising and adopted a narrow reading of the Lanham Act, this case must still be decided by a jury because use of trademarks in metatags is actionable.

3. The First Sale Doctrine Does Not Apply

The first sale doctrine, the primary basis for S & L Vitamins' defense, clearly does not apply to this case because S&L Vitamins has done much more than merely stock and display Australian Gold's Products on its website. As the Court previously acknowledged in its Order denying S&L Vitamins' Motion to Dismiss, and as conceded by S&L Vitamins, when one's activities go beyond displaying, stocking and reselling genuine products, the first sale doctrine does not apply.

Under the first sale doctrine, "a purchaser who does no more than stock, display, and resell a product . . . violates no right conferred upon the producer by the Lanham Act." *Sebastian Int'l Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1076 (9th Cir. 1995); *see also Playboy Enters.*, 354 F.3d at 1025-26 (diversion to competitor's website is actionable use of trademark); *Eli Lily & Co. v. Natural Answers, Inc.*, 233 F.3d 456, 465 (7th Cir. 2000). Conduct beyond the mere resale of trademarked goods, however, can support a Lanham Act violation. *Sebastian*, 53 F.3d at 1076; *Bandag, Inc. v. Al Bolser's Tire Stores*, 750 F.2d 903 (Fed. Cir. 1984), *aff'd*, 809 F.2d 788 (Fed. Cir. 1986); (advertised in a manner that suggested that defendants were affiliated with plaintiff, thus giving rise to Lanham Act Claim); *Stormor v. Johnson*, 587 F.Supp. 275 (W.D. Mich. 1984).

In *D 56, Inc. v. Berry's Inc.*, 955 F.Supp. 908 (N.D. Ill. 1997), a case factually similar to the one at hand, D 56 filed suit against Berry's for trademark infringement. D 56 distributed and marketed high-quality model products that were sold only to authorized dealers who entered into certain restrictions regarding the sale and distribution of the products. Berry's, not an authorized dealer of D 56, purchased the products from unknown companies who were authorized dealers of D 56. Berry's used D 56's marketing materials, including store display signs, as promotional tools. Berry's also displayed signs bearing D 56's trademark in their store and on their store front and featured the model products using signs bearing D 56's trademark. *D56*, 955 F.Supp. at 910-911. The defendants argued that the first sale doctrine applied because they were simply reselling genuine D 56 products. *Id* at 919. The court held that the resale of genuine products "does not shield them from charges of trademark infringement where they use plaintiff's trademark and promotional materials in their displays and advertising." *Id* at 920.

S&L Vitamins' use of the Australian Gold's trademarks in the metatags and with Yahoo constitutes more than merely displaying and stocking trademarked items. The Seventh Circuit analogized the use of another's trademark in a metatag as "like posting a sign with another's trademark in front of one's store." *Eli Lily & Co.,* 233 F.3d at 465. Here, the overt act of using the trademarks on the websites in the html source code and on Yahoo reaches far beyond merely stocking and selling products. At a minimum, it raises a factual question for the jury.

Further, as discussed in Australian Gold's moving brief, S&L Vitamins has superimposed its logo and tradename over Australian Gold's products. This is likely to give the false impression that S&L Vitamins is somehow affiliated with, endorsed or sponsored by or approved of by Australian Gold. Certainly, this goes well beyond simply stocking and displaying goods.

4. Factual Issues Exist Regarding S&L Vitamins' Sale Of Genuine Australian Gold Products

The Second Circuit recognizes claims for trademark infringement and unfair competition even when the defendant claims to be selling genuine goods but fails to follow quality control standards. *See El Greco Leather Prods. Co. v. Shoe World, Inc.,* 806 F.2d 392 (2d Cir. 1986); *Movado*, 2000 WL 1855120. In *El Greco*, the Second Circuit held that one of "the most valuable and important protections afforded by the Lanham Act is the right to control the quality of the goods manufactured and sold under the holder's trademark." *El Greco*, 806 F.2d at 395. In *El Greco*, when a certificate of inspection was an integral part of plaintiff's quality control effort, resale without the certificate of inspection infringed upon the trademark. *Id.* at 395.

Likewise, in *Movado*, the defendant's website sold Movado watches, which it obtained from "diverters" of Movado products, but did not offer the Movado factory warranty. Instead, the website offered its own warranty. Based on the defendant's failure to offer the factory warranty, Movado brought a trademark claim. Movado contended that the sale of its watches without the warranty made the defendant's watches distinctly different. The court denied defendant's motion for summary judgment and held that the warranty made the watches different. *Movado*, 2000 WL 1855120 at *4; *see also Shell Oil, Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104, 107 (4th Cir. 1991) (defendant infringed upon Shell's trademark by marketing bulk oil according to its own, and not Shell's, quality control standards); *Aldolph Coors, Co. v. A. Genderson & Sons, Inc.*, 486 F.Supp. 131, 135-36 (D. Colo. 1980) (distribution of Coors beer without regard to quality control measures constituted trademark infringement under the Lanham Act).

Under these cases, there are, at a minimum, factual questions precluding summary judgment as to whether the Products are genuine since S&L Vitamins admits that it offers no training or instruction on their use. Some of the tanning products are not designed to be used on sensitive areas of the body such as the face; while other products are specifically designed to moisturize and protect the face. There is extensive evidence in the record regarding Australian Gold's training efforts. In a typical year, Australian Gold trains over 30,000 employees, salon owners and managers in 600 presentations. AG's Response ¶9. Australian Gold's representatives visit authorized distributors at their place of business to provide onsite training. *Id.* Training is designed to (1) ensure that the end users of the products have received proper instruction and training on the use of the products; (2) ensure that the end user receives face-to-face consultation with a trained sales person to match the correct product with the person's skin type and tanning objectives; (3) ensure that the products are used in a safe and proper manner; and (4) protect the reputation and perception of the products as premium Products available only in tanning salons.

Sales over the internet are nameless and faceless transactions where none of the proper instruction and training on the use of the Products is achieved. Issues of whether the quality control standards and the integrity of the Products have been maintained are factual in nature and can only be resolved by a jury.

5. The Nominative Fair Use Doctrine Does Not Apply to the Facts of This Case

S&L Vitamins attempts to hide behind the nominative fair use doctrine arguing that "consumers seeking the Products need to know them by name." S&L Vitamins' incorrectly argues that Australian Gold "can produce no proof in the record to show any suggestion of sponsorship or endorsement by Australian Gold of its sale of Australian Gold products rising to the level of likelihood of confusion." (S&L Vitamins Brief, pp. 10-11).

As set forth above, the nominative fair use doctrine is inapplicable because of S&L Vitamins' use of Australian Gold's trademarks in metatags and with keyword internet advertising. Additionally, the nominative fair use doctrine does not apply because, as correctly stated by S&L Vitamins, "the user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder." (S&L Vitamins' Brief, p. 10 *quoting The New Kids on the Block v. News America Publ'g, Inc.*, 971 F.2d 302 (9th Cir. 1992)).

S&L Vitamins' has used Australian Gold's trademarks more than is reasonably necessary to identify the Products. On its website, S&L Vitamins has full-sized images of Australian Gold's products that were modified by the addition of a "BodySourceOnline.com" tradename and body source logo that are positioned adjacent to or superimposed over the images of the products which are clearly the trademarks of Australian Gold. AG's 56.1 Statement ¶ 51 (Ex. K). Additionally, the phrase "All Rights Reserved" appears directly beneath the image of the Product. AG's 56.1 Statement ¶ 52 (Ex. E). As set forth in Australian Gold's motion for summary judgment, this conduct gives rise to liability under the Lanham Act. At the very least, these are factual issues that must be decided by the trier of fact.

6. Likelihood of Confusion

S&L Vitamins claims that it "can now be said with certainty that no proof of likelihood of confusion is present here." That is simply not true. Not only did Australian Gold designate evidence showing actual confusion, where a consumer was confused as to whether S&L Vitamins was an authorized distributor (AG's Response, Hartlieb Dep. 140:22 - 144:8, Ex 5 thereto.), but the issue of likelihood of confusion is a determination that is factual in nature and thus, in this case, not appropriate for summary judgment. "Questions regarding likelihood of confusion are normally factual in nature, given the complexity of the test and the likelihood of material factual disputes about a number of the factors." *Universal City Studios, Inc. v. Nintendo Co., Ltd.,* 746 F.2d 112, 116 (2d Cir.1984). Therefore, "if a factual inference must be drawn to arrive at a particular conclusion on a *Polaroid* factor, and if a reasonable trier of fact could reach a different conclusion, the district court may not properly resolve the issue on summary judgment." *Id.*

In the Second Circuit, courts generally apply eight nonexclusive factors, known as the *Polaroid* factors:

> the strength of the plaintiff's mark; (2) the similarity of plaintiff's and defendant's marks; (3) the competitive proximity of their products; (4) the likelihood that plaintiff will "bridge the gap" and offer a product like defendant's; (5) actual confusion between products; (6) defendant's good faith; (7) the quality of defendant's product as compared to plaintiff's; and (8) the sophistication of the purchasers.

Polaroid Corp. v. Polarad Elecs. Corp., 287 F.2d 492, 495 (2d Cir.1961); *Danone Asia Pte. v. Happy Dragon Wholesale, Inc.*, No. CV-05-1611 (CPS), 2006 WL 845573 (E.D.N.Y. Mar. 29, 2006).

S&L Vitamins fails to make any argument as to why there are no genuine issues of fact under the *Polaroid* factors (perhaps because it realizes it is a factual inquiry) and, instead, suggests that expert testimony and survey evidence is the only way to establish "likelihood of confusion" and because it did not do so, the inquiry stops there. (S&L Vitamins' Brief, p. 8).

The likelihood of confusion must be considered by the jury because the evidence supports a likelihood of confusion. For example, under the *Polaroid* intent factor, the Court must consider "whether the defendant adopted its mark with the intention of capitalizing on plaintiff's reputation and goodwill and any confusion between his and the senior user's product." *Nora Beverages, Inc. v. Perrier Group of America, Inc.*, 269 F.3d 114, 124 (2d. Cir. 2001) (quoting *Lang v. Ret. Living Publ'g Co.,* 949 F.2d 576, 583 (2d Cir.1991)). A reasonable jury could find that S&L Vitamins paid for the Australian Gold trademark in keyword advertising to capitalize on Australian Gold's goodwill.

Additionally, S&L Vitamins' conduct has caused actual confusion with respect to customers who were confused as to whether S&L Vitamins was an authorized distributor. (*See* AG's Response, Hartlieb Dep. 140:22-144:8, *Ex. 5* thereto.) In fact, one tanning salon asked Australian Gold whether S&L Vitamins was "a legitimate distributor." (*Ex. 5* to Hartlieb Dep. Bates number AG0013016).

Further, as explained above, there is a factual question about the quality of the Products sold by S&L Vitamins since it does not offer training on the use of the Products. This element "is primarily concerned with whether the senior user's reputation could be jeopardized by virtue of the fact that the junior user's product is of inferior quality." *Trustees of Columbia Univ. v. Columbia/HCA Healthcare Corp.*, 964 F.Supp. 733, 748 (S.D.N.Y. 1997)(quoting *Arrow*

Fastener Co. v. Stanley Works, 59 F.3d 384, 398 (2d Cir. 1995)). Clearly, Australian Gold has set forth evidence how internet sales harm the reputation of its Products.

In sum, these and other questions must be resolved by the jury "upon consideration of a fully-developed factual record." *Mastercard Int'l Inc. v. First Nat. Bank of Omaha, Inc.,* No. 02 civ. 3691 (DLC), 03 civ. 707 (DLC) 2004 WL 326708, *5 (S.D.N.Y. Feb. 23, 2004).

C. Australian Gold Has a Valid Claim for False Advertising under the Lanham Act.

S&L Vitamins' has correctly set forth the elements of a false advertising claim which the plaintiff may prove by either (1) showing that the advertising is literally false, or (2) although literally true, the advertisement is implicitly false and is likely to mislead or confuse consumers. *McNeil-PPC, Inc. v. Pfizer, Inc.,* 351 F.Supp.2d 226, 248 (S.D.N.Y. 2005).

S&L Vitamins' website contains literally false statements. S&L Vitamins has made the false claim of "All Rights Reserved" in the altered images of Australian Gold's Products. This falsely proclaims that S&L Vitamins is a creator of Australian Gold's product images and copyrighted label artwork and as a result reinforces that the mistaken belief that S&L Vitamins is either the source of the products or is otherwise authorized by Australian Gold to sell the products on the internet. At a minimum, this raises a question of fact as to whether claiming "All Rights Reserved" gives rise to a claim for false advertising under the Lanham Act. Therefore, S&L Vitamins it not entitled to summary judgment.

D. S&L Vitamins is not Entitled to Summary Judgment on Australian Gold's Trademark Dilution Claim.[5]

Under the Federal Trademark Dilution Act, a trademark holder is entitled to an injunction against another's use of a famous trademark if such use begins after the mark has become

[5] Australian Gold agrees with S & L Vitamins that the state law trademark infringement and unfair competition claims rise or fall with the federal claims. For the same reasons discussed above, Australian Gold's state trademark infringement and unfair competition claims are valid and must be decided by the jury.

famous. *Savin Corp. v. Savin Group,* 391 F.3d 439, 448 (2d Cir. 2004), *cert. denied*, 126 S.Ct. 116 (2005). S&L Vitamins challenges Australian Gold's trademark dilution claim only on the grounds that the Australian Gold trademark is not famous. In this circuit, if a party claiming trademark dilution shows more than a scintilla of evidence on the fame of the mark then summary judgment is inappropriate. *Id.* at 450.

Australian Gold has set forth much more than a scintilla of evidence on the fame of its trademark Australian Gold. Australian Gold is the leader in the indoor tanning industry. Fifty to sixty percent of the 25,000 tanning salons in the United States carry either Australian Gold®, Swedish Beauty® or Caribbean Gold® products. (2nd Am. Ans. & Counterclaims at ¶¶ 2, 14). Australian Gold manufactures and sells approximately 80 different tanning lotions. *Id.* Its Products are regarded as premium tanning products and Australian Gold is S&L vitamins top selling brand comprising approximately 25% of its lotion sales. (AG's 56.1 Statement, Exs. E & F, Mercadante Dep. 195:10-196:7; 197:15-21; Sagarin Dep. 71:21-22.) These facts entitle Australian Gold to have a jury decide if its mark "Australian Gold" is famous.

E. Australian Gold has Valid Claims for Tortious Interference with Contract

S&L Vitamins claims that it could not interfere with Australian Gold's Distributorship Agreements because (1) it did not have specific knowledge of any of the Distributorship Agreements; (2) it did not have direct contact with any of Australian Gold's authorized distributors; and (3) even if it did interfere with Australian Gold's Distributorship Agreements, Australian Gold has not introduced any evidence that it was damaged by S&L Vitamins' actions. S&L Vitamins is wrong on all accounts.

Under New York law a claim for tortious interference must satisfy four elements: (1) existence of valid contract between plaintiff and third party; (2) defendant's knowledge of the contract; (3) defendant's procuring of breach; and (4) damages. *See Assoc. Flour Haulers & Warehousemen v. Hoffman* 282 N.Y. 173, 26 N.E.2d 7 (1940).[6]

1. S&L Vitamins has General and Specific Knowledge of Australian Gold's Distribution Agreements

S&L claims that that it could not interfere with Australian Gold's Distributorship Agreements because it did not have specific knowledge of the contents of these agreements. S&L Vitamins' argument fails because: (1) the law does not require specific knowledge of the contents of an agreement to be held liable for interference and (2) even if it did, S&L had specific knowledge of Australian Gold's Distribution Agreements beginning in January, 2004. (*See* Comp., ¶ 25-24; AG"s 56.1 Statement, Ex. E, Mercadante Dep. 124:21 - 125:2.)

First, New York law does not require an interfering party to have specific knowledge of the interfered with agreement. *See Avon Prods., Inc. v. Berson* 206 Misc. 900, 135 N.Y.S.2d 867 (Sup. Ct. 1954). In *Avon*, the Court found that it was irrelevant who was actually breaching Avon's closed distribution system because the ultimate issue of importance was that the defendant knew he would not be able to purchase the Product without a breach occurring: "[t]he allegations of defendants' knowledge of the arrangements made by plaintiff with its representatives limiting their authority to sell only to consumers and of their inducing the sale to them nevertheless by such representatives, are sufficient to charge defendants with an actionable wrong which, in view of the lack of adequate remedy at law, calls for equitable relief." *Id.* at 905.

Further, S&L Vitamins incorrectly cites *John Paul Mitchell Sys. v. Quality King Distribs., Inc.*, 106 F. Supp.2d 462 (S.D.N.Y. 2000) and *Matrix Essentials, Inc. v. Cosmetic*

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[6] The existence of valid contracts between AG and its distributors is conceded in ¶ 11 of S&L Vitamins' Response to AG's 56.1 Statement.

Gallery, Inc, 870 F.Supp. 1237 (D.N.J. 1994), *aff'd*, 52 F.3d 612 (3rd Cir. 1996) to support its position that could not interfere with Australian Gold's Distributorship Agreement because it does not have specific knowledge of the interfered with contract. In *Quality King,* the Court rejected JPMS' claim of tortious interference because it could not prove that "Quality King [the purchaser] intentionally induced the breach of that contract." *Quality King*, 106 F.Supp.2d at 476-77. Further, the Court held that *Quality King*, [purchaser] did not have knowledge of the contract at issue. *Id.* at 476.[7] In contrast, it is absolutely clear that S&L Vitamins is aware of the distribution contracts, and their accompanying prohibitions, at issue here.

First, in January, 2004, S&L Vitamins received a cease and desist letter from Australian Gold notifying it that it was, among other things, interfering with Australian Gold's Distributorship Agreements. (*See* AG's 56.1 Statement, Ex. E, Mercadante Dep. 124:21-125:2; Complaint, ¶¶ 23-24, Ex. A.) The January, 2004 cease and desist letter clearly states that "ETS [Australian Gold] sells the Products directly to tanning salons for re-sale to consumers in connection with their delivery of on-site tanning services and to distributors for re-sale to such tanning salons. Our agreements expressly prohibit the sale of the Products through web-site remarketers such as yourself." (*See* Complaint, Ex A.) Furthermore, at this time, S&L Vitamins was a party to the lawsuit styled *California Tan v. S&L Vitamins*, No. cv 04-1052 DT (FMOx) (C.D. Ca 2004) which was venued in California. In this matter, California Tan sent S&L Vitamins a cease and desist letter demanding it stop selling its lotion on the internet. S&L

[7] The *Matrix* case is also easily distinguished. First, it should be pointed out that this *Matrix* case applies New Jersey law and was resolved at trial because the issue of knowledge turned on a factual dispute. *See Matrix*, 870 F.Supp. at 1247. Here, there is also no question that unlike the defendants in *Matrix*, S&L Vitamins has knowledge of Australian Gold's prohibition on sales of tanning lotions over the internet.

Vitamins knew that California Tan only sold its lotion in tanning salons and had a general understanding of this industry wide practice.[8] (*Id.* at 31:3-33:20.)

Finally, S&L Vitamins had to be aware that it was interfering with Australian Gold's Distribution Agreements; otherwise, why didn't it seek to purchase Products from an Australian Gold distributor. Logically, it would make the most sense for S&L Vitamins to attempt to acquire products at as cheap a price as possible. However, S&L Vitamins never did so, instead, it obtains Products from salons and pay 10%-20% more for the Products then it would pay the distributor. Why does S&L Vitamins do this - because it knows that it is prohibited from purchasing Products from Australian Gold's distributors and selling the Products on the internet. In fact, Mr. Mercadante, a principal of S&L Vitamins, admitted in his deposition that "if I buy it [Australian Gold Products] from a distributor, then I would presume that would include me under these [distributorship] contracts." (*Id.* at 124:11-14.)

Clearly, S&L Vitamins' claims that it has no knowledge of Australian Gold's distribution agreements are false. In fact, S&L knew of Australian Gold's Distributorship Agreements, and, furthermore, was directly informed by Australian Gold of the existence of these contracts, and yet continued to purchase Product in a manner that circumvented and interfered with these agreements. On the basis of this disputed issue alone, S&L Vitamins' motion for summary judgment should be denied.

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[8] S&L Vitamins lost a summary judgment motion filed by California Tan and eventually settled the lawsuit and agreed not to sell California Tan products on the internet. S&L Vitamins continued its crusade against the tanning industry when it sued a third tanning lotion manufacturer, Designer Skin, Inc., here in the Eastern District of New York. In this action and the lawsuits against California Tan and Designer Skin, S&L Vitamins was confronted with extensive evidence of the industry-wide distribution system employed by almost all of the major lotion manufactures, which prohibited the sale of lotions on the internet.

2. S&L Vitamins Actively Caused the Breach of Australian Gold Distribution Contract

S&L mistakenly argues that it cannot be liable for its tortious interference because it did not have direct contact with Australina Gold's distributors, and instead acquires Product through salons. This is blatant misstatement of the law. S&L Vitamins' business model is one by which it induces supposedly legitimate tanning salons to act as its conduit to obtain Products, which it otherwise was unable to acquire. In return, S&L Vitamins pays a slight mark-up to the salons for the Products they procure on S&L Vitamins' behalf.

The decision in *John Paul Mitchell Sys. v. Pete-N-Larry's Inc.* 862 F. Supp. 1020 (W.D.N.Y. 1994) is instructive. In that case, the court essentially describes the standard for what would constitute tortious interference. In *Pete-N-Larry's,* the court held there was no tortious interference because the defendants did not induce the breach; rather, the breach had already occurred before defendant became involved. The Court, however, specifically noted, "[t]he fact that the defendants are at least two steps removed from the contractual relationship does not necessarily relieve them of liability." *Pete-N-Larry's Inc.*, 862 F.Supp. at 1029; *See also Benton v. Kennedy-Van Saun Mfg. & Eng'g Corp.*, 2 A.D. 2d 27, 152 N.Y.S.2d 955 (1st Dept. 1956).

Here, S&L Vitamins' actions meet the standard for tortious interference set forth in *Pete-N-Larry's*. First, S&L Vitamins knew of Australian Gold's exclusive distribution system and specifically worked with salons to obtain Products in violation of Australian Gold's Distributorship Agreements, thereby directly interfering with known contracts. S&L Vitamins is not simply taking advantage of a breach after the fact, but rather actively encouraging and inducing [caused] the breach. S&L Vitamins use of a conduit was so important to its business model that it agreed to loan its key supplier $7,500 in legal fees to defend the third party action commenced against Yucatan by Australian Gold. There is no better evidence of S&L Vitamins active inducement of the breach than the testimony of S&L Vitamins' principal, Steven Mercadante. Mr. Mercadante testified as follows:

Q. And so Mr. Sheehan, let's say, would place an order with Future Industries, he would get in and your testimony is he would call you up and say, I have your order, it's here for you to pick up?
A. Right.
MR. COLEMAN: Object to the form, though. There's been no testimony that Sheehan did buy from Future Industries. This is just a hypothetical.
MR. MATTHEWS: Just a hypothetical. Just using an example for that. And we'll Get some testimony on that later, Ron.

* * *

Q. You go to Mr. Sheehan's place of business, correct?
A. Yes.
Q. And you take the entire order, tanning lotion and the cases and all as they were shipped from the distributor to Mr. Sheehan, correct?
A. Unless in some cases Danny has ordered some things for himself as well, he'd take it out before we picked it up, yes.
Q. But if not, you get the entire shipment from the distributor to Yucatan, Mr. Sheehan, and take that product along with the invoice back to your store where you'd check it in?
A. Correct.
Q. Make sure you didn't get shorted or there was an overage?
A. Right.
Q. If the order was acceptable and everything was right, you send the invoice back along with the check at the appropriate percentage either 20 percent over or 10 percent over [the price paid by Yucatan], depending on the product?
A. That's correct.

AG's 56.1 Statement, Ex. E, Mercadante Dep. 104:10 -106:4.

Mr. Mercadante further testified that: "Now we just take the whole box with us, invoice and all so we can check it and then we send the invoice back to him with the check." *Id.* at 103:23-25. Danny Sheehan, the owner of S&L Vitamins' primary supplier, admitted that when he received orders from S&L Vitamins that he would place orders with Australian Gold's authorized distributors, who are under contract with Australian Gold. (AG's Response, ¶ 25.)

S&L Vitamins' conduct sets in motion a series of events whereby a tanning salon places what would appears to be a legitimate order for that salon with an authorized distributor, who, in turn, is duped into believing that it is selling Products to that salon for its own use, when in reality the sale originated and was paid for by S&L Vitamins. Clearly, a question of fact remains regarding S&L Vitamins' actions that caused the breach of Australian Gold's Distributorship agreement. Accordingly, summary judgment should be denied.

3. Australian Gold's Damages

S&L Vitamins' interference mars the reputation of Australian Gold and undercuts its position in the market. Australian Gold's damages can be described best by discussing first, the investment they make in the exclusive distribution system, and second, the investment they make in fighting interference within this system.

Australian Gold expends considerable resources in maintaining it exclusive distribution network. Since the inception of this lawsuit, Australian Gold has spent over $2 million on training, including 600 presentations to over 30,000 personnel employed by distributors or affiliated salons. (AG's Response, Ex. B, Hartlieb Aff.) Australian Gold engages in such costly training programs because they believe that the training is needed in order to assure that consumers are counseled accurately about the various Australian Gold Products. Australian Gold wants to insure that each consumer is satisfied with the Products they purchase, and that they use them appropriately, avoiding adverse reactions. Australian Gold also encourages distributors and salons to promote associated Australian Gold Products. AG's 56.1 Statement at ¶ 20.

In response to S&L Vitamins' 56.1 Statement, Australian Gold provided the affidavit of Leslie Hartlieb, AG's CEO, which discusses at length the damages suffered by Australian Gold as a result of S&L Vitamins' activities. (See AG's Response, Ex A.) Further, attached to the affidavit of Leslie Hartlieb is a spreadsheet which demonstrates the money Australian old has spent to prevent internet diversion of its Product. (See AG's Response,Ex. A, Hartlieb Aff.(Ex.

B).) Australian Gold's business model relies on the maintenance of its distribution system. If its Product becomes widely available on the Internet, customers will no longer be willing to purchase the Product in salons, where the Product is sold with the advice of trained personnel. In addition, salons will be less interested in carrying the Product if it is available on the Internet. Therefore, the market for the Product will be diminished, and the sales of the product will decrease. Australian Gold has spent millions of dollars attempting to protect its distribution system, and will suffer much more substantial losses if S&L is allowed to continue to interfere with Australian Gold's contracts.

Curiously, S&L failed to discuss, or distinguish the Tenth Circuit's recent ruling in a case with analogous facts. *Hatfield*, 436 F.3d 1228. In *Hatfield*, the defendants sold Australian Gold product on the internet without authorization. In order to procure Australian Gold's product, the Hatfields engaged in numerous ruses until they ultimately bought the Product with cash from an anonymous seller. S&L Vitamins (like the Hatfields) has acted to circumvent Australian Gold's exclusive distribution system. In both cases there was active interference with a distribution system that both the Hatfields, and in this case S&L Vitamins, had knowledge and understanding of. In *Hatfield,* the Court provided a clear representation of the damages suffered by AG due to the interference of the Hatfields.[9]

Here, Australian Gold was damaged in the same way as the damages described by the Court in *Hatfield*. Australian Gold's business relies on securing an exclusive distribution system. Time, effort and tremendous expense have been expanded in Australian Gold's efforts to maintain this system. S&L Vitaminsseeks to dismantle the entire enterprise that Australian Gold has created, simply for its own short term gain. While it is certainly reasonable to promote healthy competition in the marketplace, unfair and parasitic activities should not be tolerated.

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[9] As the Court stated: Plaintiff offered evidence of approximately $1 million worth of expenses that ETS incurred protecting its distribution channels by combating the distribution of Products over the internet. Plaintiffs also offered testimony that ETS undertook these efforts in part because (1) sales over the internet undercut chances for add-on sales and upgrades, which occurred more frequently with face-to-face service in salons; (2) sales over the internet undercut ETS's commitment to salons and distributors that Products would only be made available through salons, threatening ETS's continued relationships with those entities; and (3) consumers who purchased Products over the internet might buy a lotion that did not work well for them, making follow-on sales less likely than they would be if Products were sold only in salons. Thus, ETS's expenditures combating Product diversion amount to mitigating damages--that is, damages incurred as a result of attempting to minimize other types of damages. *Hatfield*, 436 F.3d at 1238.

In *Hatfield* the Court found that injunctive relief and damages were both sufficiently reasonable to withstand a motion for a judgment as a matter of law. Australian Gold respectfully submits that the same measures may be appropriate here, and that a summary judgment motion would deprive Australian Gold of the opportunity to address unsettled facts and law.

F. S&L Vitamins is Not Entitled to Summary Judgment on the Copyright Claims

For the reasons set forth in Australian Gold's Motion for Partial Summary Judgment, Australian Gold is entitled to summary judgment on its copyright infringement claims. S&L Vitamins' artwork containing Australian Gold's copyrighted labels constitute an authorized derivative works in violation of Australian Gold's exclusive rights under 17 U.S.C. § 106.

S&L Vitamins cites an internet article, which by definition is hearsay and inadmissible pursuant to Fed. R. Civ. P. 56(c) for purpose of summary judgment, presumably in support of its argument that its creation of derivative works is not copyright infringement. While the relevance of that article is highly doubtful, it is worthwhile to note that Australian Gold has a copyright in its artwork on the label, not the bottles as apparently was the case in the internet article. Further, the fair use doctrine does not apply in this case because S&L Vitamins waived it when it failed to raise it as an affirmative defense. *Chicago Bd. Of Educ. v. Substance, Inc.*, 354 F.3d 624, 629 (7th Cir. 2003).

IV. CONCLUSION

For all the foregoing reasons, S&L Vitamins' Motion for Summary Judgment should be denied.

Dated: New York, New York
January 3, 2007

Respectfully submitted,

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